

**GC100 and Investor Group  
F.A.O. Lucy Ryland**

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**Submitted electronically:** [Lucy.Ryland@thomsonreuters.com](mailto:Lucy.Ryland@thomsonreuters.com)

**Subject:** *Hermes Equity Ownership Services (Hermes EOS) comments on the review of the Directors' Remuneration Reporting Guidance*

Dear Madam/Sir:

Hermes Equity Ownership Services welcomes the opportunity to provide our suggestions on the Directors' Remuneration Reporting Guidance by the GC100 and Investor Group.

By way of background, Hermes is one of the largest asset managers in the City of London, and is wholly owned by the BT Pension Scheme, the UK's largest corporate pension scheme. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients, mostly pension funds, from around Europe and the world. In all, Hermes EOS advises clients with regard to assets worth a total of over £154 billion (as at 31 December 2015).

Our detailed comments on how to further improve the reporting of remuneration policies are as follows:

### **Linking remuneration to company strategy**

Despite the requirements to publish an annual strategic report, we continue to highlight the importance of clearly articulating the link between the strategy of the company and remuneration. In particular, how each component of the remuneration policy contributes to the company's short and long-term strategic objectives.

This also means using performance periods, which are clearly linked to the timing of the implementation of the business strategy. The annual letter from the chair of the remuneration committee provides the company the opportunity to give this the appropriate emphasis and explanation. The letter should also describe how particular performance measures work together to encourage strong alignment with business strategy.

Therefore, we recommend that there is a more explicit role for the letter from the chair of the remuneration committee in the company's annual report. We recommend that the guidance is more specific and clear about the letter's role in reporting director remuneration principles and

describes characteristics that make it informative and material to investors. Furthermore, the company's chair should also consider using this letter to address the reasons for significant changes to or contentious aspects of the company's remuneration policy.

### **Applying the Guidance on discretion**

We believe that the current guidance (p. 5) provides a sufficient level of detail regarding discretion.

### **Information about the approved policy in subsequent remuneration reports**

We agree with the view that sufficient information should be included to help shareholders easily assess the reported remuneration in the context of relevant aspects of the policy.

We would also welcome more specific guidance on how details of the remuneration policy are disclosed – for example in the form of appendices or separate remuneration reports which investors could consult if they wish to do so. We would recommend that the guidance recommends the disclosure of at least a summary table of the existing remuneration policy.

### **Performance targets: protecting genuine commercial sensitivity yet achieving transparency**

We acknowledge that there may be circumstances where it is acceptable for targets not to be disclosed as they are deemed to be commercially sensitive. This issue may be more critical in sectors or industries subject to intense competition. However, we have seen too many instances of companies relying on this exemption and not even disclosing their targets retrospectively. We urge remuneration committees to consider carefully when seeking to use this exemption. In these cases they should provide an explanation that seeks to convince the reader that the company may suffer indeed rather than merely asserting that this would be the case.

We would like to see in the revised document additional guidance on the detailed and specific justification that remuneration committees should provide when applying for exemption on disclosing commercially sensitive performance metrics, including the time limit for the exemption.

### **Remuneration component maxima**

We believe it is right that companies should disclose the maximum opportunity that executives could earn in relation to their short-term and long-term incentives. However, we caution against prescribing through the Guidelines that companies should specify the absolute maxima with respect to annual salary increases. The inclusion of a specified maximum percentage increase would provide investors little in the way of additional value but instead provide additional succour to executive directors in negotiating pay rises and thus leading to a potential ratchet in total quantum. Instead, the guidance we believe should encourage meaningful disclosure within the policy table around the explicit parameters that

guide salary increases – for example e.g. “salary increases for EDs will be no larger than RPI” or “will be in line with that for the workforce in which the ED is based”.

**Shareholding requirements: compliance, time to comply and enforcement by remuneration committees**

We agree to the present formulation of the guidance with respect to shareholding requirements of executives.

**Remuneration committees should aim to improve clarity**

We believe that clarity of information on remuneration practices is crucial to investors. Therefore, pay schemes should always be communicated in a clear and understandable fashion – to both investors and executives. In particular, we would encourage remuneration committees to explicitly explain how pay has been aligned to performance over the previous 3-5 years. Overall, clarity of remuneration disclosure will help investors to assess whether executive pay is properly aligning the interests of executives with those of long term investors.

We hope that our comments and suggestions are of assistance. If you would like to discuss our views, please do not hesitate to contact Jaime Gornsztejn (Jaime.Gornsztejn@hermes-investment.com, tel. +44(0) 20 7680 2350).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Leon Kamhi', with a stylized flourish at the end.

Leon Kamhi